

HYBRID SOCIAL SECURITY PLAN

**A DEFINED BENEFIT PLAN MATCHING
SOCIAL SECURITY PROMISES BUT
INVESTED IN PRIVATE MARKET**

- Because of the unfunded pensions and benefits in the public sector, many people are suggesting defined contribution pension plans.
- Locally I have studied many local firms including the two engines of local commerce, FedEx and Smith Nephew. Both have stopped their defined benefit plans in 2003 and gone to a defined contribution plan. Most local private sector firms promise their employees social security plus a 401K wherein they match $\frac{1}{2}$ of the employee contribution up to a maximum 6% employee contribution (3% from the employer).

- The City of Memphis (SBMAC, item 13) is considering a defined contribution plan for new and non vested employees.
- The problem with this is that this would involve social security costing the City 6.2% and the employee 6.2%.
- My suggestion is a Hybrid social security plan. In this plan the City of Memphis would promise a defined benefit plan that matches social security.
- The City and the employee would each contribute 6.2% of base salary initially in the pension fund. This money would be invested with the pension fund but would be tracked separately.

- The City would offer a new 457 plan matching up to $\frac{1}{2}$ of the employees' annual contribution to the 457 plan up to a maximum of 3% City contribution. This 50% match would only apply to the new hybrid plan not the currently vested employees.
- Over time assuming the average rate of return that has been experienced over the last 25 years, the return should reduce the City's and the employees 6.2% contribution to a low level.
- This pension plan would put the private sector employee on a level playing field with the public sector employee.

Return of City of Memphis Pension Fund Over Time

- The total return on the City of Memphis Pension Fund as of June 30, 2009 since its inception has been between 9.4% and 10.12%

Heritage Foundation Social Security Calculator

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Results Summary

You can expect to pay **\$495,482** in Social Security taxes over your working life for retirement and survivors benefits. For those taxes, you can expect to receive **\$3,237** a month in Social Security retirement benefits. Your rate of return under today's Social Security is **-0.95%**.

However, if you had been able to invest all of your Social Security taxes in a Personal Retirement Account (PRA), you would have had a total of **\$1,410,839** when you retired. Your monthly benefits would have been **\$11,492. You lost \$8,255 a month.**

Your Information

<i>Information</i>	<i>Value</i>
Age:	25
Gender:	Male
Zip Code:	—
Current Earnings:	\$37,765
Life Expectancy:	77.21 yrs
Retirement Age:	67.00

Portfolio Allocation:

Large Corporate Stocks:	50.00%
Small Corporate Stocks:	0.00%
High Grade Corporate Bonds:	0.00%
US Govt. Treasury Bonds:	50.00%
Annuity:	50%

**CONSIDER SOCIAL SECURITY
RETURN AS SHOWN IN THIS
CALCULATOR OVER TIME**

Social Security vs. Personal Retirement Account

	Annual Rate of Return
Social Security (Total taxes paid into Social Security: \$495,482)	-0.95%
PRA at Retirement (Total value of PRA at retirement: \$1,410,839)	4.89%
	Monthly Benefits
Social Security	\$3,237
Convert entire PRA into an annuity	\$11,492
Convert only 50% of PRA into an annuity, leave 50% as a nest-egg for your heirs (Bequest: \$1,137,615)	\$5,746

Higher Contribution Rates Cannot Be Avoided Through 2018 as shown in this Shelby County chart

Section III – Impact of Benefit Changes on Baseline Projections

